

Message Text

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ACTION EA-12

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 INT-05 OES-07 L-03

/080 W

-----073174 201619Z /44

R 200315Z JAN 78

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 6285

INFO AMEMBASSY BONN

USDOC WASHDC

AMEMBASSY JIDDA

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 876

COMMERCE FOR MEPD

E.O. 11652: GDS

TAGS: EMIN, ID

SUBJECT: HIGH-LEVEL MANEUVERS OVER BINTAN ALUMINA SMELTER

1. SUMMARY: REPORTEDLY DUE TO THE ENCOURAGEMENT OF HIS SCIENCE ADVISER, B.J. HABIBIE, PRESIDENT SUHARTO DECIDED TO GIVE THE \$450 MILLION ALUMINA SMELTER CONSTRUCTION PROJECT ON BINTAN ISLAND TO A CONSORTIUM HEADED BY KLOECKNER INDUSTRIES AND INCLUDING ALCOA, WITHOUT GOING THROUGH AN INTERNATIONAL TENDER. THIS HAS CAUSED CONSIDERABLE DISSATISFACTION AMONG THE "TECH-NOCRATS," AND THEY ARE TAKING ADVANTAGE OF THE PRESIDENT'S PREOCCUPATION WITH POLITICS PRIOR TO THE MARCH ELECTION TO DELAY THE PROJECT. END SUMMARY.

2. A \$300-450 MILLION ALUMINA SMELTER THE GOI HAS LONG CON-TEMPLATED BUILDING ON BINTAN ISLAND HAS APPARENTLY BECOME THE OBJECT OF HIGH-LEVEL MANEUVERING WITHIN THE GOI IN RECENT
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MONTHS. THIS SMELTER WOULD PROCESS LOCAL BAUXITE TO SUPPLY AN ALUMINUM SMELTER BING BUILT WITH PANANESE ASSISTANCE AT ASAHAN IN NORTH SUMATRA. (SEE JAKARTA 77, A-96, PAGE 10 FOR DETAILS.) IN RECENT YEARS THE GOI CONSIDERED BUILDING THE BINTAN SMELTER WITH SOVIET CREDITS AND TECH-NICAL ASSISTANCE, BUT NEGOTIATIONS WITH THE SOVIETS BROKE DOWN. THE GOI THEN DECIDED TO SEEK SAUDI ARABIAN FI-

NANCIAL ASSISTANCE. THE SAUDIS PROVED TO BE LESS THAN FORTHCOMING AND THE GOI DECIDED TO EXPLORE THE POSSIBILITY OF CONSTRUCTION ON THE BASIS OF COMMERCIAL AND SUPPLIER CREDITS.

3. IN SEPTEMBER 1977 THE GOI DEPARTMENT OF MINING DECIDED TO INVITE A SMALL NUMBER OF FIRMS, INCLUDING ALCOA AND KAISER ALUMINUM FROM THE U.S., TO BID ON THE PROJECT. HERE THE STORY GETS MURKY. IN OCTOBER, BEFORE THE TENDER COULD BE LET, PRESIDENT SUHARTO SIGNED A LETTER GIVING THE PROJECT TO A CONSORTIUM HEADED BY KLOECKNER INDUSTRIES OF WEST GERMANY AND INCLUDING ALCOA AND ANOTHER GERMAN FIRM, HUMBOLDT WEDAG. THE PRESIDENTIAL DECISION REPORTEDLY WAS DUE TO THE IMPORTUNING OF HIS SCIENCE ADVISER, B.J. HABIBIE. HABIBIE IS A LONG-TIME RESIDENT OF GERMANY, A VICE PRESIDENT OF MESSERSCHMIDT, AND GENERALLY HAS CLOSE TIES TO GERMAN BUSINESS INTERSTS. ALTHOUGH KLOECKNER IS USING ALCOA LICENSED TECHNOLOGY, IT IS NOT CLEAR TO WHAT EXTENT ALCOA WILL ACTUALLY BE PARTICIPATING IN THE CONSTRUCTION.

4. HABIBIE'S FREE-LANCE INTERVENTION MAY, HOWEVER, HAVE AROUSED POWERFUL OPPOSITION. THE KLOECKNER REPRESENTATIVE HERE IN JAKARTA TOLD US THAT HE FEARS THAT THE PROJECT IS OPPOSED BY MINISTERS SUMARLIN, WIDJOJO, AND SADLI. THIS IS A FORMIDABLE TRIO OF "TECHNOCRATS" WHO HAVE A DEMONSTRATED ABILITY TO GET THINGS DONE. WHETHER THEY HAVE

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THE ABILITY OR DESIRE TO BLOCK A PROJECT WHICH HAS PRESIDENTIAL BACKING IS, HOWEVER, ANOTHER QUESTION. KLOECKNER HAS DECIDED TO WAIT UNTIL AFTER THE PRESIDENTIAL ELECTION IN MARCH IS OUT OF THE WAY BEFORE TRYING TO PUSH ITS PROPOSAL.

5. SOURCES IN THE DEPARTMENT OF MINING HAVE RAISED QUESTIONS CONCERNING THE ECONOMIC VIABILITY OF THE PROJECT. ALTHOUGH A PRE-FEASIBILITY STUDY BY KAISER ENGINEERS CONCLUDED THE PROJECT WAS FEASIBLE (SEE JAKARTA 7790) OUR SOURCES MAINTAIN THAT KAISER STUDY WAS OVERLY OPTIMISTIC CONCERNING COST ESTIMATES AND THE FUTURE PRICE OF ALUMINA. THEREFORE, MINING MAINTAINS PROJECT FEASIBILITY IS CONTINGENT ON SOME SORT OF CONCESSIONAL FINANCING. THIS ARGUMENT MAY, HOWEVER, REFLECT A DEPARTMENT OF MINES DESIRE TO SEE THE PROJECT POSTPONED RATHER THAN GO TO KLOECKNER IN THIS SOMEWHAT IRREGULAR MANNER.

MASTERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, ALUMINUM, CONTRACTS, INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978JAKART00876
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780031-0127
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780141/aaaabikx.tel
Line Count: 112
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3324c7e1-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3742401
Secure: OPEN
Status: NATIVE
Subject: HIGH-LEVEL MANEUVERS OVER BINTAN ALUMINA SMELTER
TAGS: EMIN, ID, KLOECKNER INDUSTRIES
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/3324c7e1-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014